36. compares the definition of economics offered by Adam smith and Lionel Robbins?

Adam Smith wrote a book in 1776 whose title was "Wealth of Nations". In his book he discussed the word 'wealth' through its four aspects: production of wealth, exchange of wealth, distribution of wealth and consumption of wealth. Therefore it can be said according to Adam Smith: "Economics is a science of wealth". Wealth means goods and services transacted with the help of money. Let's discuss four aspects of wealth; first one is production of wealth it shows as to how goods and services are produced. Goods and services are produced by the combination of four factors of production i.e. land, labour, capital and organization. Second aspect is exchange of wealth there are many procedures of goods and services in a society. Every procedure produces goods and services more than his personal requirement. The exchange of wealth enables everyone in the society to satisfy his multiple wants. Third aspect is distribution of wealth, which means the distribution of goods and services among different sections or individuals of a society. As known by explanation of exchange of wealth that procedures of goods and services exchange the surplus wealth with each other throughout the year. The last and forth aspect is consumption of wealth that is using up the utility of goods and services for the satisfaction of wants is called the consumption of wealth.

"Economics is the science which studies human behavior as a relationship between given ends and scarce means which have alternative uses," Robbins wrote.

According to Robbins, economics is a positive science but in reality it is not positive science deals with material things, the results of which are certain but economics deals with human behavior which is uncertain. Only A Valuable Theory: Robbins has reduced economics merely to the valuationtheory. According to 'Frazer' economics is more than a valuation theory. Robbins has widened the scope of economics extra ordinary. He has included number of matters in economics which are in fact not discussed in economics. According to Robbins, it covers the whole human life. For example, if you are to choose between the worship of God and that of Mammon (riches), it will be an economic problem while it is spiritual issue. According to Robbins, economics has no normative aspect while it is incorrect. Normative science is that which deals with the matter of material well beings. It is also pointed out that Robbins definition ignores the macro aspect like determination of national income and employment. But in reality this is very important work of economists. It is also pointed out that Robbins definition has made economics colorless, abstract and difficult. It is in fact a definition of economics only for economists. A common man cannot get any utility from it.

Human Love Missing: Human love is entirely missing in Robbins definition of economics. He has not mentioned any thing about man's welfare. According to Robbins, an economist is aneutral person. He has no concern whether the ends are good or bad. But in reality an economist cannot be neutral person. He must give views on the solution of actual economic problems. Some writers point out that it fails to explain the problem of unemployment which is a main economic problem present time. According to Robbins, means are always scarce. But in some countries, one of the economic means, i.e., labour is not scarce. It means Robbins definition is based on wrong assumption. The theory of economic growth or economic development has become the importantbranch of economics. This definition ignores it. It means it should be discussed in economics that how does economy grow and which factors bring about increase in nation income and productive capacity of the economy.

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37. Discuss the subject matter of economics?

There are two approaches to the study of the subject matter of economics.

1. Traditional Approach 2. Modern approach

1. Traditional Approach: The traditional approach was introduced by classical economists. Classical means something, which has been followed for a long period of time. It functions as the basis from which new ideas are developed. It must have its originality. The ideas of classical economists are the basis of modern economic theories.
According to the traditional approach, economics deals with man. Yet economics does not deal with the body or the mind of man. Economics deals with the activities of man. Economics deals only with those activities of man through which man tries to satisfy his economic wants. There are three fundamental economic wants.

a) Food
b) Clothing
c) Shelter

In order to satisfy the economic wants man uses goods and services. This is known as consumption in economics. In the **Theory of Consumption** we try to analyze the behavior of the consumer.
For the purpose of consumption, there is a need for production. In the **Theory of Production** we try to analyze the behavior of the producer. We try to find out how the producer will allocate his resources so as to get the maximum profit out of his production. For the purpose of production, we must take the help of the factors of production. There are**four factors of production, such as land, labour, capital and organization.**

2. Modern Approach: according to modern approach of economics the subject matter of Economics can be divided into

a) Micro Economics b) Macro Economics

a) When we study the problem of Economics from a particular point of view, such as one individual consumer, one firm, the price of one commodity, that is known as **Micro Economics.**

b) When we study the problem as a whole, all consumers, all commodities and all producers, it is known as **Macro Economics.**

The important components of the subject matter of economics are:

1. The presence of scarcity;
2. The behavior of individuals who are faced with that scarcity;
3. Interaction of individuals who are faced with scarcity; and
4. The existence of institutions to facilitate the interaction of individuals who are faced with scarcity.

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38. Explain the term want and scarcity as understood in economics?

Want: This is often thought of as a psychological desire which makes life just a little more enjoyable, but which is not physiological necessary to life. You need oxygen, but you want a hot fudge sundae. Satisfaction is achieved by fulfilling wants.

Generally, the terms want and desire are used to mean the same thing. But in economics want refers to the desire which is backed by the ability and willingness to satisfy it.

A simple desire for anything does not become a want unless the person has the capacity to satisfy it and is willing to apply that capacity for satisfying the desire.

Therefore, human wants may be defined as effective desires for particular things which express themselves in the efforts or sacrifices necessary to obtain them.

There are four essential elements of human wants.

i. Scarcity of things

ii. Desire to get the scarce things

iii. Sufficient amount of money to satisfy the desire.

iv. Willingness to spend the money to get the desired things.

Human wants are unlimited, varied and diverse. They encourage people to undertake economic activity. Satisfactions of wants through production and exchange of goods and services is the basic aim of economic activity.

Wants may be classified into two broad categories.

1. Primary or basic wants e.g., food, clothing and shelter which are common to all persons; and

2. Secondary or non-basic wants e.g., education, travelling, etc., which differ from person to person.

A person first of all tries to satisfy his primary wants at all costs. Secondary wants are satisfied as and when the necessary resources become available.

Scarcity: An economic principle in which a limited supply of a good, coupled with a high demand for that good, results in a mismatch between the desired supply and demand equilibrium. In pricing theory, the scarcity principle suggests that the price for a scarce good should rise until equilibrium is reached between supply and demand. However, this would result in the restricted exclusion of the good only to those who can afford it. If the scarce resource happens to be grain, for example, individuals will not be able to attain their basic needs.

When a product is scarce, consumers are faced with conducting their own cost-benefit analysis, since a product in high demand but low supply will likely be expensive. This means that the consumer should only take action and purchase the product if he or she sees a greater benefit from having the product than the cost associated with obtaining it.

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2(b) discusses the importance of multiplicity of wants and scarcity of resource in economics?

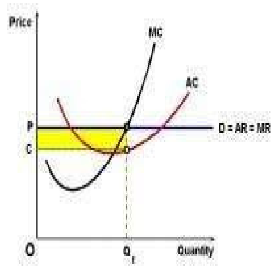
39. Distinguishing features of market structure (1) perfect competition, monopoly, monopolistic competition and oligopoly?

Comparing the four main market structures.

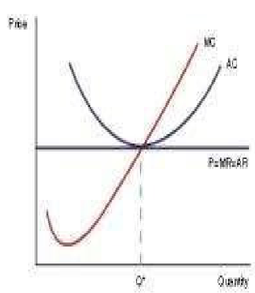
Perfect Competition

- Many Sellers/Many Buyers
- Homogenous goods
- No barriers to entry
- Perfect Information
- No advertising
- Price Taker
- P = MR = MC
- Can make profits in short-run
- Long-run profits equal zero
- P=ATC → Break-Even Point
- P=AVC → Shut-Down Point

Short Run Graph:
Profits > 0



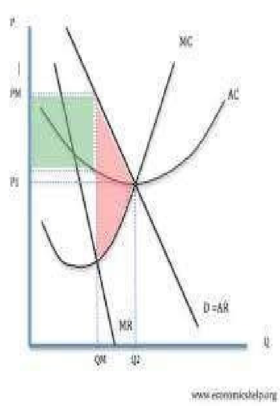
Long-run Graph:
Profits = 0



Monopoly

- One Seller/ Many Buyers
- Unique good
- Extreme barriers to entry
  - Govt (patents)
  - Location (desert)
  - Resource (DeBeers)
  - Tech. (Microsoft)
- Imperfect Information
- Little advertising
- Price Setter
- Max Profits → MR = MC
- Long-run profits can be positive
- Inefficient outcome
- Results in DWL
- Can Price Discriminate

Regular Monopoly Graph

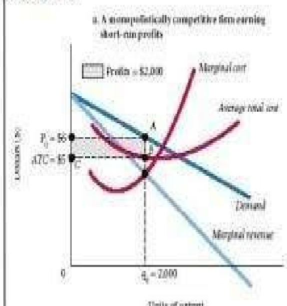


Red = DWL
Green = Profit

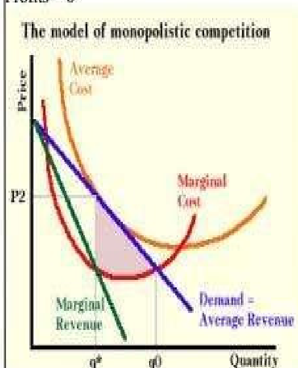
Monopolistic Competition

- Many Sellers/Many Buyers
- Differentiated Products
- No barriers to entry
- Slightly Imperfect Information
- Use advertising to shift demand
- Price Setter
- Max Profits → MR = MC
- Can make profit in the short-run
- Long-run profits = 0
- Inefficient outcome
- Results in DWL

Short Run Graph:
Profits > 0



Long Run Graph
Profits = 0



Oligopoly

- Few Firms/Many Buyers
- Similar Products
- High Barriers to entry
- Slightly Imperfect Information
- Uses advertising
- Uses Game Theory to set Q or P
- Always Max Profit when MR = MC
- No colluding (illegal)
- No way to graph market

Types of Strategy:

- Cournot
  - q is choice variable
  - simultaneous game
  - Profits > 0
  - Profits < Monopolists profits
  - If a symmetric problem, all q's are equal and profits are equal
  - Results in Nash Eq.
- Stackelberg
  - q is choice variable
  - sequential game
  - Profits > 0
  - Profits < Monopolists profits
  - 1st Mover Produces More and makes more profit
  - 2nd Mover produces less and makes less profit
  - Uses 'backward induction' to solve for eq.
- Bertrand
  - p is choice variable
  - simultaneous or sequential game
  - Profits → 0 b/c of price war
  - P and Q end up being at perfectly competitive outcome.

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